US Electric Utilities & IPPs

The Virtual Boston Conference Day 2: Who Said What?

Industry Overview

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Equity
United States
Electric Utilities

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Summarizing the key events & updates

Our latest sector-wide Power, Utilities & Renewable Leaders conference concluded yesterday. While we hosted 50+ companies overall, stand out meetings yesterday included PEG, FE, ETR, and PCG. Day 2 Company write-ups included below include: AEE, ATO, BKH, CWEN, CMS, D, DTE, DUK, EIX, ETR, WTRG, ES, FE, HASI, NI, OGS, PCG, PNW, PEG, SR, RUN, VST, XEL.

On PEG, we see mgmt. as confident in addressing ongoing dockets and more critically poised to further its divestments in Power, offset dis-synergies, and ultimately seek further refinements of ZECs eventually too. Offshore appears clear too as a further avenue of interest for investors. Meanwhile, FE (Neutral) stated they believe a rate case could come sooner than '24, albeit with just -10c at risk based on regulatory capital structure derived off ratebase; this outcome could be substantially more accretive than our earlier concerns. That said, the pathway to such a rate case filing amidst numerous other pending dockets – and resolution in this favorable regard remains pending a lot of execution. As for ETR, we see mgmt. as quite firm in its expectations for an AR FRP extension to materialize by March 15th (rather than conceding the point of any eventual rate case). Further, LA settlement by late March also key. While we see capex cut risks under less bill headroom, we see affirmation of regulatory structures altogether as enabling some improvement off among widest discounts in group. Finally, PCG's ability to sidestep equity needs and pivot dialogue more constructively with CPUC continues to impress despite the continued pressure on the shares.

Financing with Preferreds continues to expand

Amidst an effort to limit dilution given wide discounts (EIX, ETR) and overall limit/delay dilution (NI), we look for equity-linked alternatives to prove a growing trend in utilities. With ~50% equity content treatment from the rating agencies and modest coupons, we perceive a sharp shift in financing alternatives. FE also affirmed its intent to evaluate such avenues (seemingly over asset sales) to fund any eventual B/S fix required. We see this as an expanding subject of focus from many companies – watch SEC filings for clues on extent of any such offerings.

Texas: Deep Freeze implications

So much of the conference was dedicated to understanding the vast array of implications. While a handful stand out as beneficiaries (SR principally; SO in part), we are looking at an array of cautious datapoints around cost recovery and rate impacts. With few datapoints from regulators yet on the 'crowding out' effect yet of higher fuel cost recovery charges we believe the discount will remain for some time (despite affirmation from many that recovery should prove forthcoming – whether through normal recovery mechanisms or discrete securitizations). We stress Gas LDC inflation in particular remains a cautious point. *We don't expect sharp recoveries post Texas.*

The Bigger Picture from the Administration

Few companies had good anecdoctes, but those that did are focused on transmission.

Refer to important disclosures on page 36 to 39. Analyst Certification on page 33. Price Objective Basis/Risk on page 26.
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Just Where is Biden Going?

While front and center issues such as Texas rate impacts dominated dialogues this week, the bigger picture question of just where and how this new administration intends to achieve its clean energy goals remains opaque. We note the EEI CEOs appear to have had an initial meeting with DOE Sec Granholm this week alongside our conference. Early datapoints would appear to indicate a clear focus on transmission, consistent with our earlier discussions with the FERC. While XEL is among the first companies to come back with an expanded transmission plan in response to the election (and its own state targets for 80% by 2030), we expect others to come back later this year with revised outlooks. This view on transmission was shared by many, but remains in part dictated by the planning processes of key RTOs such as SPP and MISO. This should come in three forms: 1) larger project planning awards; and 2) addressing interconnection queues and processes – helping to accelerate deployment; and 3) on the margin, we could see some greater authority on eminent domain granted.

Where is this transmission upside coming? We heard it across the board. AEE, FTS, WEC would be direct beneficiaries of processes in MISO (updates later this year even with latest plan release possible), while others like SO and DUK could see those opportunities arise out of yet to be finalized generation resource planning. Even if unsuccessful in garnering greater renewables for itself, DUK should benefit from added transmission spend from legislation.

What appears clear to us though is that this spending may not materialize meaningfully for some time – adding to longer-dated prospects in the 2024+ timeframe. While we've perceived an acceleration for some time, we see growing acceptance of both a renewed uptick in transmission spend in 2024-2026 as well as generation replacement in this period as well. We see further roll-forwards of updates late this year (EEI principally) inclusive of 2026 in 5-year views as particularly relevant in initially reflecting this accelerating fact pattern.

Biden & subsidies – where to go from here?

We remain sober on more subsidies directly for clean energy – seeing this as potentially protracted. Rather, we remain focused on storage benefits. This remains the arena in which a new subsidy could bolster the market immediately and seemingly offers greater margin to utilities and developers alike given the integration 'complexity' relative to thin margins on offer for solar today.

The blowback from Texas on resource planning

While we identified this in our Day 1 takes, we stress a focus on *retaining assets while still adding renewable resources.* The focus on costs remains on proving out the economics of adding additional solar & wind relative to the *variable* cost of dispatching coal assets (rather than all-in fixed cost structure - which are not trivial). Shifting towards seasonal dispatch for coal assets – principally winter – appears an over-arching trend that started in the Northeast but appears to be spreading elsewhere. On-site fuels during harsh winter weathers that challenge gas deliveries - this includes both coal but especially oil resources to backstop the grid.

Expect more discussion grid support with more renewables too. XEL's next update would appear to be a $0.5-1.0 Bn voltage support effort to pair with its transmission proposal. This remains another avenue to watch peer companies propose, particularly across vast distances in the West with ever greater renewable penetration.

Competition is pervasive

Owning the renewables directly remains a challenge for utilities – and we view a backdrop of competition as adding a greater degree of opacity around capex planning. Assumptions on the split of PPA vs owned opportunities in ratebase is key, in our view (SO, DUK, but also for other smids too: EVRG, POR, PNW).

Ameren (AEE)

Our update with Ameren mgmt. covered several key pending pieces of legislation and their relative levels of support. We note that downstate legislation picked up a key sponsor in the chair of the Utilities Committee which is an incremental positive. While AEE mgmt. expressed clear support for the downstate legislation and its modification of the ROE mechanism to use an average of national rates, it remains unclear to what extent competing legislation including the Clean Energy Jobs Act (CEJA) can garner further support or potentially be reconciled with downstate legislation. Maintain Neutral on AEE.

Renewed support for higher transmission spending

Ameren mgmt. reiterated the growing need for higher levels of investment in regional transmission. Recall that on the Q4 call the company flagged investment in "multi-value" transmission projects (MVP) across its Midcontinent Independent System Operator (MISO) footprint in order to increase the reliability of the grid and ease regional congestion, particularly in light of its own ambitious renewable buildout plan. While such investments would likely have modest upside in the current investment plan through 2025, mgmt. reiterated that it sees upside and potential for sustained rate base expansion as part of its longer-term spending plan, in particular during the 2025-29 period. Ameren's current 5-year plan includes a robust +11% transmission rate base CAGR through 2025, which mgmt. notes does not currently include multi-value projects which have largely been completed, suggesting upside beyond the current plan if a new group of projects were proposed and approved by MISO and relevant regulators.

Downstate bill garners key support

We note that the downstate energy legislation currently making its way through the state house in IL recently picked up the sponsorship of the chair of the influential Utility Committee. Among the key components included in this bill is a modification of the current formula-based ratemaking mechanism and its 580 bps adder in favor of one based on an average of authorized ROEs from the previous 12 months adjudicated nationwide. While we note the proposed methodology is necessarily backward-looking, it would certainly serve to align IL allowed ROEs more closely with national levels as average ROEs tend to drift higher or lower over time. While the current 30Y UST + 580 bps methodology was originally intended to achieve the same goals, today's low levels of interest rates have resulted in far below-average ROEs. The downstate legislation also includes a 40 bps performance-based band based on measurable metrics.

Rate case filing in MO concurrent with wind approvals

Ameren expects a busy regulatory schedule in MO with an impending base rate case filing coming later this month, as well as filing for certificates of convenience and need (CCNs) for the latest renewable generation proposed in its latest resource filing. In MO the rate case process typically lasts 11 months and the most recent wind projects received CCNs after 5-6 months, suggesting that by Q3 the contours of both processes should come into focus. Recall that MO has been a relatively constructive jurisdiction of late, in particular with Ameren's most recent case outcome achieved in Q1 of 2020 given substantial cost offsets more than made up for a top line reduction in revenues and ended up with a ~$100m post-tax annual increase. While Ameren needs to make this filing in order to add its soon-to-be-completed wind generation into rates we note that the current bias across the sector remains toward staying out of rate case filings given regulatory sensitivity around bill increases during the Covid pandemic.

Atmos Energy (ATO)

How to think about financing needs with upcoming $2.5bn bill due

With ATO one of the few gas utilities not to have short-term financing in place (despite $2.8bn in liquidity), mgmt. highlighted that it would expect to have its financing in place by the end of March when bills are due. That said, the company continues to leave open the door for some equity content (as well as ST debt, LT debt and cash on hand) to meet its obligations. We also wonder if there could be some sort of posturing as a negotiating tactic with 3rd parties given the different approach that ATO has taken. At the end of the day, mgmt. did reiterate its 2021 EPS guidance and LT EPS CAGR of 6-8%, so it should provide some confidence that there is clearly a preference for debt (as it awaits approval from regulatory bodies).

Not much new on strategy for recovery or lessons learned in policy hearings

Mgmt. highlighted that hearings last week with executives didn't provide much info given the focus on energy needs, and it still remains too early to predict its regulatory strategy for recovery. Securitization also remains an option in Texas with the session ending in May (special session in June/July if needed), although here too it remains very early in the process and could be somewhat protracted given subsequent approval required from regulators (assuming a bill is introduced and passed) and the time to get financing in place. From a regulatory standpoint, mgmt. highlighted that there is a peaking component to consider for recovery, although the base charge component is 59% of the customer bill; we perceive the peaking component could be somewhat tricky given the likely pushback from those without flowing natural gas. Given the substantial impact to customer bills and discussions from policy makers around these concerns, we see this likely an overhang on shares until more clarity evolves.

$2.5bn seems like a best estimate at this point

In terms of reducing the $2.5bn number, mgmt. highlighted it has good confidence in its estimate and it's still going through force majeure considerations (freeze offs in the West). At this point we don't necessarily see ability to further mitigate these gas purchase costs.

Black Hills Corp (BKH)

Texas Setbacks, but Confidence in Plan

Ahead of our meetings with management, BKH reaffirmed their recently issued guidance despite the latest cold weather challenges - with the company previously disclosing a ~$600Mn elevated purchased gas cost and $800Mn ST debt facility in tandem to improve liquidity. As we await firmer details around regulatory recovery across jurisdictions, we note that several of their states have issued orders requesting applications to seek deferred accounting treatment and we believe recovery is likely over the next 2-3 years (albeit with Arkansas and Kansas potentially more protracted).

Despite the latest setbacks, discussions more broadly continued to highlight confidence in the company's recently laid out five year outlook and inaugural long term trajectory of 5-7%. We further don't view the latest events as impacting equity financing timing with conversations suggesting constructive conversations with rating agencies (recall FFO thresholds are 13% and 12% for Moody's and S&P, respectively) and levers to avoid breaching these thresholds ahead of incoming cash.

Elevated Level of Spend and CO Developments on the Horizon

We perceive particular confidence to achieve at least a $600Mn run rate in annual spend to drive 5-6% growth, with potential for yet elevated levels of investment and asset-light opportunities to further boost margins. This should help offset any challenges around ROE pressures for any upcoming rate cases to help drive elevated growth. After the Colorado commission extended the comment period for the RRR, comments are now due early next week after the earlier rate case dismissal. If a constructive resolution is reached, look for the prior rate case to be reinstated on a 60 day delay from the original procedural schedule that sought new rates for this Fall. If the company has to re-file the rate case, we would look for a new filing in CO this summer. Either way, watch parallel developments around efforts to incorporate another rider for additional relief with more minimal lag.

We reiterate our Buy rating on the shares, stressing elevated rate base growth at an attractive valuation – and see the latest guide of 5-7% LT EPS growth affirming our confidence in what we view as a Best-in-Class SMID.

Clearway Energy (CWEN)

Still confident on 5-8% div growth with upper end of range for '21

Mgmt reaffirmed confidence on LT div growth of 5-8%, with the upper end anticipated for '21 even after adjusting for the the one-time $20-30mn TX storm impact. The high end is still expected (with $325mn CAFD outlook also intact for '21) given a number of significant dropdowns of late, with pro forma CAFD recently raised to $385mn, up $40mn from $345mn after including Agua Caliente (closed Feb 3rd) and the 1.6 GW CEG co-investment. Other opportunities in the pipeline include the 1.1-1.7 GW co-investment with CEG (target closings 2021-2023) which is in the works, in addition to the recently signed agreement for the 264 MW Mount Storm Wind. Notably, this project has a 10-yr contracted energy hedge; we note ~$10mn CAFD on $96mn corp capital, or a 10.3% CAFD yield, with this deal expected to close 1H21. With ~1.7 GW of wind and ~600 MW of solar in the portfolio, mgmt appears to be comfortable with this level of exposure to more volatile wind production, given the higher ~9-10% IRRs to be found vs. solar.

More color on the financing strategy for growth

Mgmt has noted that all commitments made through Nov 3rd have effectively been funded, with deals thereafter to be funded via a combination ATM issuance as well as potential block equity deals in cases where it makes sense, in addition to project debt, green bonds, and retained CAFD. We note CWEN recently issued a $925mn green bond (3.75% senior unsecured notes due 2031) to finance new projects and refi the $600mn 5.75% senior notes. Mgmt highlighted increasingly greater demand for higher-yield debt.

Addressing TX: No change to guidance, need for upgrades will be assessed

Clearway had previously estimated a direct cash impact of $20-$30mn from the recent ERCOT weather event, prior to any potential mitigation factors (although we note cost savings will likely be limited). The impact appeared to have been driven by weather-driven wind outages and contractual hedge obligations from certain facilities. The company is currently assessing potential initiatives that could improve fleet resiliency in response to the TX event. That said, given the low-probability nature of this event, we expect a cost-focused approach to this endeavor. We note that a minority (likely well below 10%) of CWEN's renewable PPAs are firm commitment contracts.

CA gas assets: Re-contracting opps vs. up for sale?

Our discussions also focused on the improving backdrop for Clearway's contracted gas assets in California (two CCGTs, one peaker), with existing PPAs set to expire in 2023. Mgmt continues to assess all options including a combination of bilateral re-contracting on its gas assets given the robust environment (with mgmt aiming for ~7-10-yr contracts for greater earnings stability) and/or divestment of some or part of its ownership. We expect that addressing this uncertainty will be a priority in 2021. We note recent multiples as high as 14x EV/EBITDA from recent comparable West coast deals. For re-contracting efforts, we estimate that RA market prices may be in the $5-6/kw-mo range, with upward movement likely since this summer's rolling blackouts (we continue to assume $6/kw-mo for El Segundo, Marsh Landing, and Walnut Creek).

CMS Energy (CMS)

IRP Focus – Accelerating coal retirements, incremental renewable oppty

Among key discussion focuses with CMS mgmt included its upcoming IRP filing in June. Mgmt continues to indicate likely focus on accelerating coal retirements with Campbell 1 and 2 scheduled for 2031 and Campbell 3 scheduled for 2039 given latest state emission targets set, which could drive incremental renewables spend. We note that Campbell units 1 and 2 account for a relatively smaller portion of overall rate base (4%) than unit 3 (5.5%) and thus we see these as the most likely candidates for a potentially *accelerated* retirement when CMS releases its next IRP proposal. Indeed our channel checks with interveners including the Sierra Club identified these units as a focus of negotiations with environmental groups, further bolstering our view. Recall, while CMS is only required to file an IRP every 5 years, mgmt expressed a preference in filing more frequently with a voluntarily submission every 3 years, given the clarity provided from tri-annual IRP filing cycles around capital spend around resource planning.

Indeed discussions with mgmt affirm focus on retiring remaining coal units with 5 remaining (2 to be retired in 2023 already under first IRP filing in 2018). In terms of replacing capacity with accelerated retirements, mgmt expressed IRP filing to focus upon incremental renewables beyond 6GW of solar through 2030 already approved in the last IRP as well as on battery energy storage deployment, and demand-side management.

ERCOT comparison – better managed wind assets/grid, more extreme conditions

With the latest cold snap and outages across TX, discussions were focused on resiliency with mgmt keen to address key differences between its own operations and ERCOT. In terms of underperformance of wind assets in ERCOT during the cold snap as blades froze, <u>CMS mgmt emphasized that MI was substantially colder than TX (~20 degrees) during this same period without the same issues for its wind assets</u>. To this point, CMS mgmt expressed its wind turbine generally all have lubricant and conditions for components such as the gearbox, paired with its ability to forecast icing conditions to take pre-emptive actions to prevent asset failure, all without having to reach the point of heated turbine blades mentioned in 'winterization' discussions on ERCOT. CMS emphasized its engineering team does a lot of work on loss of load expectations during extreme weather conditions and actively works with MISO around backup and reserve margins – further noting the capacity market in MISO supporting resiliency and appropriate grid planning relative to failures in ERCOT.

That said, given that CMS is already embedding loss of load situations and managing extremes effectively, with its upcoming IRP – despite likely greater scrutiny on reliability and resiliency side of the equation – mgmt does not expect a significant amount of incremental capex from this angle.

With some peer utilities expressing early discussions on <u>shift from coal retirements to usage as a seasonal asset, CMS mgmt was firm in its view that this is neither economic nor feasible</u> (with CEO expertise incl. having operated coal plants). Coal units require consistent management as coal can spontaneously combust when wet and coal piles freeze, making usage as a peaking unit impractical relative to investing in natural gas - in additional to lower heat rate/efficiency even when retrofitting an existing coal unit to gas. Carbon capture is also better for gas relative to coal.

How to effectively decarbonize heating – gas infra remains critical here on H2

Discussions also focused upon CMS mgmt's long-term plan to future-proof its gas pipeline infrastructure in tandem with its plans. Mgmt notes that heat pumps are generally not effective below a certain temperature range (below 30 degrees) with heat pump homes requiring natural gas as a backup still in MI. Notably, mgmt highlights that fully shifting all space heating in MI to electric (currently 75% nat gas and 25% propane – latter being more rural areas) would increase customer utility bills 3x (also needing modification of homes to HVAC systems) and would also substantially burden the electric grid flipping CMS from a summer peaking utility (as its resources are planned for) to a winter peaking utility with 3x higher peak.

As such, CMS mgmt emphasizes its nat gas pipeline infra remains essential in the most economical way to decarbonize space heating. Near-term CMS expects to reach net-zero methane by 2030. For long-term decarbonization, green H_2 remains particularly notable for use in decarbonizing space heating, but importantly metal pipeline is faced with stress corrosion cracking at even 20% H_2 blending with nat gas. As such, CMS emphasizes a continued trend of replacing cast iron pipe with plastic with 14K miles of plastic pipe and 12K miles of metal pipe in its system currently. Its $10Bn in spend through '30 is primarily to replace 2K miles of metal pipes with plastic and to reduce methane to reach net zero methane target by 2030. Beyond pipe replacement, mgmt notes H_2 space heating would require upgrades of appliances in homes as well as likely upgrades to valves and packing at points where pipe is sealed. CMS emphasizes working closely with organizations such as EPRI on H_2. Bottom-line, decarbonizing space heating presents a substantial investment runway with long build-out process for CMS.

Additional areas to support decarbonization include energy efficiency (1% annually supports ~$10mn in earnings), bio-sequestration (tree planting), RNG, and carbon capture.

Nat gas storage potential to be used as green H2 storage for seasonal ESS

With its substantial net gas storage fields, CMS emphasizes potential to be used as storage for green H_2 produced long-term as well, where H_2 can then be used for either space heating or even for electric generation with retrofits to gas plants (CMS mainly uses GE and expects retrofitted turbines capable of handling green H_2) as seasonal long-duration storage assets.

Dominion Energy (D)

Remain comfortable w/ the VA construct: Filing suggesting no refund a positive

For the upcoming triennial review (2017-2020), mgmt. highlighted it intends to file with the State Corporation Commission (SCC) at March end, suggesting no refund required. We stress GAAP earnings, including the ~$630.7mn expense in 1Q20 that will reduce reported 2020 earnings (14+% ROE otherwise) and $247mn in 2019 for coal plant retirements. We note a key consideration for the upcoming triennial review will be treatment of the coal plant retirement amortization in which D elected to period expense these plants (upfront expense) given the discretion of the SCC. We also view ability to utilize $300-325mn in CCRO investments as a positive, and remain comfortable with potential outcome here. While the time period is expected to be relatively long, with a hearings in Aug/Sept. and a final decision in March, we view both the commission makeup (with Navarro a clean energy proponent) and the construct as assuaging concerns on this front. *We still look for updates from the SCC to see how the new composition votes as there are few datapoints subsequent to her nomination to the role.*

SC rate case pause continues: settlement discussions moving forward

The SC rate case remains on 6-month pause as the DESC agreed in the January 2021 rate proceeding. The parties are required to report monthly on settlement progress with parties currently in settlement discussions. We continue to view the core debate to be around the rate increase during a pandemic. We continue to estimate that the financial impact to be relatively minimal (~2.5c) with a delay, although see the concession from Dominion as likely garnering additional political capital in the state. We still see probable bias for a settlement, with the SC Public Service Commission (PSC) indicating a preference for a settlement vs a fully litigated case, where we estimate a 9.5% authorized ROE (vs staff rec. of 8.9% and company request of 10.25%) as a reasonable outcome. Mgmt. voiced confidence in the case that it filed noting it has not had an SC base rate case in 8 years. We note that while securitization has come up in the past and is likely to continue, mgmt. seems less concerned on the margin given similar proposals have been defeated. While storm securitization is a useful tool, we believe securitization of NND would not be beneficial to D's EPS outlook, although see this as a low probability event.

Combing through the details on capex: watch storage and solar spend

Mgmt.'s 5-yr capex ('21-'25) of $32bn reflects a 43% increase from prior 5-yr plan with 87% of the $23.8bn in spend VA rider eligible (potential for triennial rate review offsets) and base rates diluted down ~26% by 2025. This capex program yields an impressive rate base growth in VA at +13% and 9% overall. We note discussions with mgmt. indicated that there could be some variability (to the upside) with solar spend through federal procurement/policies, although the current law allows for up to 1GW per year (2/3 rate base and 1/3 PPA), coinciding with mgmt.'s current plan. On storage, mgmt. highlighted that this $2bn in spend is likely somewhat less defined given 3 pilot projects ongoing, although did highlight its pumped storage project as progressing well. Undergrounding of distribution appears to be solidified. Net-net, we continue to view the capex profile as favorably, although look for variability in storage and/or solar.

Winter weather event impacts muted

Mgmt. highlighted minimal impacts in terms of fuel purchased costs for its gas LDCs with Utah having some mitigates due to storage and the wexpro model with 50% of supply under a rate base model. No other impacts on assets in Texas were noted (small asset on Ft. Hood, but no impact).

DTE Energy (DTE)

Our update with DTE focused on company mgmt's ongoing efforts to maintain bill stability including its current electric case stayout which is aided by strong residential sales which enabled the company to push back its deferred tax item recovery until December. On the non-regulated side we see some competitive pressures on the Renewable Natural Gas (RNG) portion of the Power & Industrial (P&I) part of the business given additional entrants to the market of late and expect the Energy Trading segment to post a positive contribution in Q1 from long positions that benefitted from price spikes following last month's severe weather. Encouragingly mgmt. affirmed confidence in attaining 5-7% EPS growth on a consolidated basis (post-spin remainco) in '22 despite tax credit earning cliff pressures and share count dilution from settlement of its equity units. Maintain Buy on DTE.

Steady electric rates through '22 expected

Mgmt. provided an update on the expectations for the next electric rate case filing, given strong retail sales to start the year. Recall that the current electric stay out was partially achieved by the utilization of an accumulated deferred income tax (ADIT) asset that was scheduled to flow back beginning in April, though DTE has recently filed to push back the recovery timeframe to December, allowing for rate stability through most of 2022. Given the rate case process in the state of MI that requires cases to be concluded within a 10 month window, the company expects to file in late 2021 for rates effective the following year. The current pending gas rate filing requesting a $195m increase based on a 10.25% ROE is expected to reach a resolution by the end of the current year (current ROE is 9.9%).

Cold snap was a net positive

DTE mgmt. reported strong performance of its electric generation fleet during the extreme cold weather seen in Feb with no material outages or customer impacts – given the strong uptime of its generation fleet DTE electric was able to export 2,000 MW to the MISO grid, while this does not impact earnings it did generate a $20m credit via the company's power supply recovery mechanism which will flow back to ratepayers – an incremental positive in the company's efforts to maintain stable bills in the absence of a rate case filing. The Energy Trading business generated gains as a result of being long spot pricing at the time of market volatility in mid-Feb, though mgmt. reported that the segment remains mostly a support function and does not hold large unhedged positions, in particular on the short side where losses could potentially be unlimited. While some midstream customers, particularly in the Haynesville basin, experienced well shut-ins, the majority of contracts are demand-based and mgmt. reports no meaningful impact on Q1 results from lower levels of activity during the severe weather.

RNG contracting more competitive

The P&I segment principally operates in the RNG market and on-site cogeneration for industrial customers. Mgmt has experienced a slightly more competitive environment in bidding for RNG inputs (manure from ag operations) where contracts have multi-year tenors, though the company continues to actively source new supply and to bring on new projects despite the more competitive environment. Demand, in particular from California given the Low Carbon Fuel Standard (LCFS) remains robust and mgmt. reports being well contracted in the near term. Despite previously pushing out its renewable energy fuel (REF) tax credit earnings cliff to the end of 2021, mgmt. sees a further extension as unlikely though expects to be able to backfill lost earnings over time.

Duke Energy (DUK)

Still waiting on key updates in NC: Rep Ark commentary positive on margin

With upside to the LT plan largely predicated on the IRP/legislative process in NC where, we wonder just how much renewable ownership is possible (relative to HB589 at 30%) and whether mgmt. can hit the top-end of its capex plan in '25-29 ($65-79bn, RAB of $140-150bn in '29) without progress on the legislative front. Mgmt. highlighted that it assume 25-50% ownership, which it feels is conservative. Still with public data points likely few and far between, aside from Rep. Dean Ark (co-chair of the Committee on Energy and Public Utilities) commentary that suggested intent to pass legislation this year and cross-over date for bills in May, we continue to wait for progress on this front. Meanwhile, mgmt. confirmed that regulatory reform such as multi-year rate plans (MYRP) and ROE banding are not needed to hit the mid-point of guidance, although would indeed enhance the LT plan given it reduces regulatory lag. We note that while the Rocky Mountain Institute endorsed these items, getting it through in legislation will be critical to monitor. *We remain quite focused on the legislation- both around the pace of acceleration on carbon reduction as well as proscribed ownership %'s. We stress that much of the 'upside' coming from legislation is likely relatively protracted (2024+) – but utility rider reform could be the most near-term tangible benefit. We also stress regardless of procurement cycle, the transmission investment is a clear opportunity in this '24 time period, and particularly accelerating should the state pursue offshore wind (East-West capacity would need to be substantially expanded).*

Texas impact: 600MW impacted, Gas LDCs not significant

Mgmt. highlighted that it had 600MW of renewables that were affected from the freeze given the inability to produce output; we estimate this likely measured in $MN's. While it did have a 100MW asset that has Brazos as a counterparty, its only 1 of 3 off-takers on the asset. Separately, mgmt. highlighted minimal impact to its gas LDCs across OH, KY, TN, and NC and would expect to recover fuel costs through the typical gas clause mechanism. Bottom line, we see an overall limited impact to DUK on an absolute and percentage terms basis.

IN: could be upside to spending but expect slower transition

While DUK recently sold a ~20% interest in IN to GIC for $2bn to eliminate equity needs with a nice recycling of capital, we don't believe additional transactions are likely in the NT given key data points that await from the Integrated Resource Plan (IRP) filing that mgmt. intends to file. This transition of the fleet is indeed likely to be slower than NC, although mgmt. highlighted that it looks to utilize the least cost financing tool. To the extent the opportunity set for the coal transition accelerates, we could see further sell down to fund growth over-time. Still with IN coal lobbyist particularly strong, we stress not to get too far ahead of expectations here.

Edison International (EIX)

Preference for additional preferred equity seems likely

Following the $1.25bn preferred issuance that has a 5.375% coupon (w/ reset date based on the 5yr treasury rate – potentially something to monitor given increasing interest rates) and is expected to have 50% equity content ($625mn) treatment from the rating agencies, we believe remaining $375mn of equity content could come in the form of preferred as well. While mgmt. left the door open for ATM utilization, the company also suggested that it has the balance sheet capacity to do *more* preferred and also acknowledged PCG's issuance considerations where it could be a different market depending on the product. To that end, we see this as indicating that there is more a preference to do preferred equity than ATM for remaining $375mn.

Customer bill impact: not too many solutions aside from securitization

While the customer bill impact will be a key consideration going forward given the substantial wildfire related spend (and O&M that will be difficult to ratchet back), mgmt. did not highlight any ability to sell assets to mitigate those considerations. While it has seen generally lower rate increases vs. peers, this still remains a consideration. One potential solution could be securitization of bad debt expenses from COVID (although not likely under collections as EIX does not likely meet the requirements). We view this as a potential useful tool given the rate impact that would occur earlier in the year otherwise.

FERC ROE focus in part

Mgmt remains confident that with its fully resolved FERC ROE at 10.3% on a settled basis from its last case this could help avoid the pitfalls of the +50bp RTO adder that otherwise appears at risk in the state. We see some risk of degradation still upon future reviews.

Entergy (ETR)

We caught up with the mgmt. team at Entergy principally focusing on the prospects for outcomes in the ongoing Arkansas Formula Rate Plan (FRP) docket which may see a resolution by the middle of the month. We also discussed the latest System Energy Resources (SERI) complaint filed last week which adds a further Federal Energy Regulatory Commission (FERC) proceeding in addition to the ongoing sale-leaseback case which has been in focus since the Administrative Law Judge (ALJ) ruling came down nearly one year ago. On balance we see a uniquely large number of uncertain regulatory outcomes upcoming, though mgmt. continues to highlight its ongoing contingency planning (as well as recent reiteration of guidance) to deal with the potential for adverse outcomes. Maintain Buy on ETR which we see as deserving of a higher valuation than lower-growth peers.

Arkansas resolution could come by mid-March

Entergy mgmt. laid out several potential paths to resolutions of its FRP proceedings – both for the 2021 rate increase where the Arkansas Public Service Commission (APSC) has initially ordered a $1m annual increase and in the broader 5-year renewal docket. Recall that based on the most recent commission filings, Mar. 15 is the target date by which the commission expects to rule on both issues. In addition to ongoing discussions at the regulatory level, state lawmakers recently put forward an amendment to the APSC appropriation bill seeking to clarify the netting portion of the FRP statute which with a retroactive application would result in approval of ETR's $67m requested increase for 2021 – note that the posted agenda for AR's Joint Budget Committee meeting on Mar 4 does not include the proposed amendment, suggesting sides have not yet reached a consensus. In our meeting mgmt. did not offer new specifics on progress of stakeholder talks citing confidentiality of the process, *though we note the recent reiteration of the long-term guidance assumes the FRP is renewed for an additional five years, a confident signal despite persistent uncertainty.*

SERI gets a new challenge from AR, LA

The APSC along with its LA counterpart have submitted a rate complaint to FERC alleging that ETR has overcharged its AR, LA, New Orleans, and MS opcos via its Unit Power Sales Agreement (UPSA) with SERI. The complaint alleges $360m of costs that were not prudently incurred were passed on to ETR's customers via the UPSA, resulting in elevated bills in service areas where incomes are below national averages. The complaint further alleges that an $800m uprate project undertaken in 2012 failed to increase the plant's output, further harming customers. Given the recency of the latest filing ETR mgmt. only affirmed that it intends to respond to the complaint through the FERC forum. We note however that the SERI has already been the subject of an adverse ALJ ruling one year ago in its leaseback and FIN-48 proceeding, and this latest complaint threatens to push back de-risking of this situation for months or even years given the busy FERC calendar.

Pref proposal coming in proxy; O&M levers

Mgmt. reiterated its expectation of seeking shareholder approval for a preferred issuance in its upcoming proxy, potentially with a convertible component, though the size of the preferred issuance will not be disclosed until the proxy filing. Further mgmt. affirmed its existing levers for managing different regulatory outcomes, including pension, tax, and interest in the context of its flat O&M outlook (inclusive of normalization of 2020 one-time items). On balance we see some degree of levers around Prefs vs common equity, as well as further O&M levers; we perceive some caution to affirming level of cost opportunities that exist ahead of details on the fate of AR.

Essential Utilities (WTRG)

Robust Muni Opportunities despite DELCORA Hiccups

We hosted our latest meetings with WTRG following their earlier guidance roll forward and recent full year results – and ahead of a potential decision from the PA commission in coming weeks around their pending DELCORA transaction.

After the Delaware County Court of Common Pleas issued an order supporting the pending acquisition of DELCORA by rejecting the county's attempt to block the sale, the county appealed the decision and the ALJ recommended the PUC deny the transaction. Given that there are only four commissioners right now in the state, we could very well see a stalemate or see the commission send it back to the ALJ to reconsider add'l evidence as the company works through their concerns. The company expects the commission to address the transaction on either March 11th or March 25th – with the latter seemingly more likely. We stress that the equity doesn't need to be pulled until August if there is a slight delay in the transaction.

Discussions further highlighted potential for muni opportunities to arise out of the pandemic as budgets are further pressured. The company has already outlined $420Mn in rate base opportunities from signed APAs that should generate ~$21Mn in earnings, with announcements of further deals seemingly on the horizon. Following the adoption of Fair Market Value legislation in TX and VA, the company now has the constructive legislation in all eight states of their water footprint. While their water biz has a footprint in TX, the company has noted no material financial impact to the water biz and no financial impact to the recent cold weather events for the gas biz given the location of their operations.

We reiterate our Buy rating on shares, seeing value relative to AWK and longer term re-rating potential as management continues to perform and drive incremental growth through municipal acquisitions.

Eversource Energy (ES)

Offshore Prospects, CT Troubles, and Confidence in Plan

Latest discussions with ES echoed earlier commentary from Orsted around the improving BOEM landscape under the Biden administration – with the company optimistic around a pending schedule from the agency. Despite latest competitive pressures materializing – and particularly evident in the recent NY award with ES not winning any of the ~2500MW – ES continues to have plenty of spare capacity for additional projects and we look towards upcoming RFPs across their footprint. We could yet see further potential tailwinds arise from add'l legislative efforts, with the Clean Future Act the latest push at the Federal level: Similar to earlier developments around tax credits, any further benefits would flow through to ES/Orsted since they don't have flow backs with their customers for the currently contemplated project (contrasted to Ocean Wind with PEG). At the state level, we continue to watch climate policy in Massachusetts legislature and potential for incremental offshore wind targets: we see potential for another 1600MW RFP for offshore wind and more utility owned solar to pass in the next several weeks.

Recall with full year results, the company firmed up their capital plan and noted expectations to be in the upper half of their previously announced 5-7% core regulated CAGR longer term. Annual spend of $275Mn related to Columbia Gas exceeded our expectations and helped drive an 8% consolidated rate base CAGR through 2025 - and latest discussions continue to suggest integration of the acquisition as going well. We view additional ramp in spend at Columbia Gas as just one of the potential upside levers to the formal plan in addition to AMI and EV projects that could materialize. While we continue to await further developments of offshore awards and more granular timing, we expect the projects already awarded to take management comfortably above the current growth rate as they start to come online. While we still see challenges in CT the biggest risk, we perceive a relatively improved environment since late last year and continue to monitor ongoing dockets.

Bottom line, we see risk/reward as balanced. Maintain Neutral.

FirstEnergy (FE)

Deal on rate case appears a unique angle to watch

Mgmt appears keen to resolve its regulatory issues swiftly. What is remarkable to us is the potential to file a rate case either by '24 or even prior – but with mgmt. quite confident that the downside can be limited to just 10c (vs the much more meaningful step change we had been contemplating). It would appear the difference relate to the actual book equity of the Ohio utilities relative to use a hypothetical capital structure. Should mgmt. prove able to reset its rates (risking just -10c-ish) we see this as a uniquely constructive outcome to de-risk the backdrop for the utilities. We see potential further de-risking of shares to enable further re-rating despite the positive improvements already. The question remains just how and whether an (accelerated) rate case would be agreed to given the litany of parallel dockets underway. We view the company as still sincerely interested in pursuing further opportunities to de-risk the backdrop rapidly and come to conclusion around a range of dockets opened up in the wake of bribery investigations.

Asset sales: not so much?

On balance we do not see asset sales as much of a priority considering the tax leakage and relative size of cash needs. We suspect converts and other such structures appear preferable despite being open to sales processes. We see limiting dilution to shares at current levels as a key priority for mgmt.

Greater transparency with AG deal and further steps taken

Our discussions focused around FE's continued steps toward improving transparency and company culture. After FirstEnergy reached a deal with Ohio AG Dave Yost to forgo decoupling revenues, they took this a step further on their earnings call by also choosing to forgo LDR (Lost Distribution Revenues) benefit. Combined, this led to a -15c impact to '20 earnings. With the likely replacement of HB6 perhaps with legislation similar to HB10, we note no provision for LDR in the current pending bill. Mgmt highlighted that per its SEET filing, Ohio ROEs average at 7.6% for 2020 (10% for OH Edison, ~4-5% for CEI and Toledo), relative to 11.9% in 2019. The two main drivers for the decline include the collection of DMR revenues (excluded from '20) as well as the LDR-related charge taken in 2020. With no LDRs in '21+, mgmt would expect ROEs to be as similar ~7.6% levels going forward. Deconsolidation for the SEET threshold is still in pending legislation (passed by Senate thus far), although even Ohio Edison is still well below the SEET threshold (~17-18%) at ~10%.

Internal investigation remains ongoing, but minimal news of late appears pos

With recent 10-K disclosures of 'immaterial' transactions around improperly charging customers, mgmt noted that they have been in discussions with multiple states around addressing these issues and see minimal risk. Otherwise, we have seen minimal announcements and we view this as a positive, although the internal investigation is still underway with an ongoing DOJ investigation. FE is working to address liquidity issues with its FE Forward program potentially bringing cost reductions through O&M and capex efficiencies in addition to broader company transformation over a multi-year period. Further, equity issuance in 2022/2023 could potentially be used as a source of funds to finance a potential penalty (admittedly this longer perceived timeline brings some concerns around length of the federal investigation).

Hannon Armstrong (HASI)

A new era of growth, with further programmatic deals anticipated

With a recently announced 7-10% 3-yr EPS CAGR (up from the prior 2-6% through YE-20), discussions focused on the opportunities ahead given an expanding renewables outlook. Mgmt reiterated strong relationships with its partners Clearway and Engie, emphasizing the close collaboration as well as opportunities for further transactions, particularly given HASI's historical preference for programmatic deals. We expect that these meaningfully sized partnerships could provide Hannon with even further visibility to continue to expand its already robust pipeline That said, while 2020 was a successful year with $1.9bn originations, we expect that $1.0-$1.5bn will be a more normalized run-rate, although we could see upside to investments from an expanding $3.0+bn pipeline. We emphasize that mgmt did not reduce guidance in response to the ERCOT weather event. After assessing the situation, HASI determined that impact was likely minimal and any potential losses would principally be tied to force majeure disputes in the event that facilities were unable to operate. That said, given their preferred equity seniority, mgmt perceives a minor impact to returns over a 20-30 year life. HASI continues to be comfortable with achieving a portfolio yield in the ~7% range.

Mgmt expects leverage to stay in the 1.5-2x range for a period. Although the company's advocacy for an IG rating remains ongoing, it is not a key focus vs. other priorities (given relatively open access to capital markets). We note that mgmt recently amended its ATM equity issuance program, raising it to $500mn from the $350mn from May 2020.

Energy efficiency poses a strong opportunity

Under a Biden administration, we continue to see energy efficiency as an opportunistic growth sector for HASI (which had historically been a key component of earnings growth in the past). Notably, the ESPC program under Obama was expanded twice through executive order, and we see likelihood that Biden could take a similar approach to supporting this program, sometime this year, thus presenting a significant potential opportunity for Hannon. Additionally, we see federal procurement of renewables as another key area of growth, with currently only ~10% of the federal government's procured electricity sourced from renewables. We see the possibility of a new target set for ~35% procurement by 2030+. Finally, a carbon tax also remains on the table, although seemingly less likely than other options.

What to expect on REIT status?

An ongoing point of discussion appears to be the ability of HASI to maintain its REIT status given its increasing focus toward resi solar and other renewable equity stakes. While HASI remains confident in their REIT status over the next three years, they have stated that they see multiple paths ahead and would consider scenarios in which they are not a REIT if it were to mean additional investment opportunities. This remains a low probability event. That said, if Hannon were to go this route, we would expect them to disclose this shift well in advance, with a substantial amount of planning and discussion with agencies.

Tightening resi solar returns – in-line with SPWR commentary

In terms of the resi solar project equity financing business, mgmt expresses that its initial entry into this space was well-timed with much higher returns and particularly attractive rates given its ability to finance mezzanine debt (SunStrong JV with SPWR). That said, HASI mgmt acknowledges that its resi solar portfolio as well as resi solar industry broadly has matured, particularly with the latest economic downcycle and proven asset performance, though resi solar assets remain very much in the money with a lot of value in yield for prior deals still.

As such, HASI expresses that ability for future resi solar biz is more challenging as returns are less attractive from a yield perspective, particularly as resi solar service providers such as RUN can issue corporate capital at extremely attractive spreads rather than needing project equity from a provider such as HASI. Nonetheless, HASI expressed that its SunStrong JV with SPWR will remain a good source of ongoing business given that it is more of a relationship than one-off project equity transactions. All-in, HASI expressed resi solar is not yet a point where this biz is not attractive at all, though acknowledging returns have definitively tightened – ultimately expect slower LT growth in resi solar (mostly ongoing basis with SPWR) for HASI but emphasis on ability to focus on other asset classes given diversified approach.

NiSource (NI)

2021 guidance has upside and affirmed with PA order

NI mgmt. reaffirmed '21 guidance today with the PUC order on Columbia Gas of PA's (NI Subsidiary) pending rate case, where the PA PUC granted a $65.2m rate increase with 9.86% ROE vs NI's original request of $100mn/10.95% ROE – in-line with previous guide and plan. We continue to think that NI appears among the few remaining utilities with material COVID latitude built into '21 guidance. That said, the company expects things to return to normal in 3Q21 with a vaccine in place. 5c is upside to this year should impacts be less than perceived and remains upside to the LT guidance range.

Financing coming soon; talking down portfolio optimization

On financing, the company plans to issue total amount of $600m to $1bn hybrid in 1H21with equity content at 50% or greater, we look to see updates in coming couple months. This will help dictate remaining equity needs in plan depending on size. On portfolio optimization, mgmt. seemed to talk down this angle given considerations on NIPSCO electric with its gas LDC. While not explicitly expressing a preference, we see somewhat less an emphasis on this for now.

ONE Gas (OGS)

OK regulatory asset order approved, but still waiting on recovery framework

Mgmt. highlighted it received the order to defer costs into a regulatory asset in OK (as well as in TX and OK). Mgmt. highlighted that hearings last week with executives didn't provide much info given the focus on outages, and did not seem to indicate any lessons learned. The company's gas cost estimate of $2.2bn remains a confident estimate. While volumes were higher than curtailments with 3-4BCF from OK and 10-12BCF from TX, we wonder around the recovery construct (mgmt. indicated a return on carrying cost with a shorter collection period vs. typical rate base asset), especially for those customers that did not receive gas (as those that did take on more volume will not necessarily have more of the burden). Given the substantial impact to customer bills and discussions from policy makers around these concerns, we see this likely an overhang on shares until more clarity evolves.

Securitization could be a path: but uncertain

Securitization also remains an option with the session ending in May in TX and OK (KS as well), although here too it remains very early in the process and could be somewhat protracted given subsequent approval required from regulators (assuming a bill is introduced and passed) and the time to get financing in place.

Not yet committing to LT growth rate

While mgmt. did not withdraw its LT guidance range, it did not necessarily commit to the 5-7% given some of the uncertainty. Securitization seems to be the key driver of this, and then otherwise the LT financing plan to help affirm its growth.

PG&E Corp (PCG)

We remain constructive on shares of late as we believe pressures on shares fail to reconcile with the improving regulatory & financing backdrop. On balance, we see an ever growing sense that the securitization outcome could well no longer involve equity at all – reducing key sensitivities around dilution. Moreover, don't expect equity should shares remain at their *current levels finding other alternatives. We don't look for any further capex updates in the near-term after a meaningful series of unveils with 4Q; also don't look for mgmt to pursue Preferreds akin to EIX given their commitments to existing capital structure between debt & equity.*

Enhanced oversight enables Safety cert and improved trust

Mgmt continues to emphasize the point of further trust and coordination between the CPUC and PG&E as the enhanced oversight requires regular 90-day update on progress towards milestones. Overall we sense continued improvement among parties.

Defining equity needs and the customer rate impact

Mgmt. initiated EPS growth of 10% from 2021-2025, which embeds the equity needed to fund growth/additional spend in plan; we estimate this to be ~$200mn/yr likely though an ATM. Mgmt. confirmed 52% of the $2bn in additional spend to be a reasonable proxy. Additionally, mgmt. narrowed its 2021 equity needs to 0-$400mn (from prior $450-750mn) following recent asset sales agreement of $954mn, and highlighted potential to reduce those needs further (potentially to zero) with a successful resolution of its alternative proposal in the securitization filing. Further, the company highlighted additional asset sales that could be utilized to reduce the customer rate impact given items such as O&M on wildfire spend likely out of its control. This includes non-core asset sales such as undeveloped land (1/3 customer, 2/3 shareholder mix), developed properties (customer benefit), Hydro generation assets (although likely smaller in size given age, at least NT), and real estate (large building in Oakland, for instance). We continue to see ability to strip costs out of the business and other forms of solutions to reduce customer costs as key to gaining comfort in the capex profile and customer rate impact going forward.

PinnacleWest (PNW)

Our meeting with mgmt. of PNW focused on prospects for some form of concurrent recovery of clean generation investment, despite the company's recent capex cut. With the rate case currently in the hearing process we perceive that parties remain broadly opposed to the Advanced Energy Mechanism (AEM) rider as proposed by PNW. Given the need for a recovery mechanism we additionally touched on potential for a subsequent rate case filing including timing and equity needs. Overall we believe that PNW shares will remain under pressure until a proposed order is issued by the ALJ (the next concrete data point) and potentially beyond, given the broad perception of a cautious outlook in the current case. Maintain Underperform on PNW.

Renewable rider not likely despite lower capex

PNW's recent Q4 update included a resetting of its 3-year capex forecast including a reduced Clean Generation bucket owing to mgmt's assessment of the likelihood of inclusion of its AEM proposal. We note that during the hearing phase the bias across a majority of stakeholders appears to still oppose the proposed AEM, though staff has suggested potentially utilizing an existing renewable tracker instead. We expect this is likely an interim proposal as PNW's AEM was originally intended to provide not just for recovery of renewable investment, but also funding of the Coal Community Transition (CCT) program and consolidating several existing trackers into one mechanism (as requested by the commission). While the ultimate outcome remains unclear we believe that for the purposes of this rate case the bias remains against approval of the AEM, while longer term prospects are more constructive given state decarbonization priorities. Recall that PNW also increased its targeted level of transmission and distribution capex in the near term in order to accommodate its projected customer growth – we expect that the near-term capex shifts have shifted a greater portion of clean generation spend into future periods (including the second half of the decade).

Reliability will drive generation additions, coal shut downs

Despite its service territory being near both CA and TX, jurisdictions which have dealt with significant electric reliability issues in recent months, PNW mgmt. reiterated the company's commitment to retire the last of its coal burning fleet by 2031. Recall that on Day 1 of our conference we heard from several management teams who alluded to the possibility for keeping some coal assets operating in a peaking or seasonal capacity in order to ensure reliability – this does not to be a strategy contemplated by PNW beyond its current 2031 targeted date for exiting coal.

Commission legislation not likely to have near term impact

Pending state legislation intended to give lawmakers the authority to regulate generation resources has proceeded through party line votes – PNW mgmt. indicates it sees a likelihood of the legislation being signed in to law by the governor. Mgmt reaffirmed its commitment to the company's long-run decarbonization plan and maintains that other than clarifications on the bill's language regarding the procurement of lowest-cost resources, the bill as written should not have a near term impact or alter plans to reduce CO_2 emissions over the long run. Importantly under the legislation the authority to set electric utility rates is not addressed and remains under the sole discretion of the ACC.

Public Service Enterprise Group (PEG)

Scarcity value from T&D-only biz remains the key to upside

With PEG's non-nuclear asset sales progressing and initial interest received for both the solar and the fossil portfolios, we increasingly stress the scarcity value to be obtained from a standalone T&D (admittedly with offshore stake). With NRG's East/West asset sales attracting a 4.3x EV/EBITDA multiple, we perceive some investor concern on merchant gen multiples, even after considerations of fleet quality. That said, we continue to see an ESG premium warranted from a standalone utility biz. Our discussions indicate that PEG is likely still on track to complete sales by its targeted '21 timeline. What appears clear is that the cost dis-synergies contemplated by mgmt. appear to be on track to be offset by this transaction.

What to do with the nuclear portfolio? Changes to ZEC structure & spin/sale too

With nuclear to be the remaining assets in Power (aside from offshore wind, with much longer '24/'25 timeline), mgmt discussed a three-step plan for its approach to these assets. The ZEC (zero emissions certificate) 3-yr extension application is ongoing, and we largely expect the existing $10/MWh economics to be extended given the backdrop of falling power prices. That said, PSE&G continues to see a 3-yr timeline as insufficient with regard to making decisions about its nuclear fleet.

The next step post-ZEC decision (still expected late April) will be to secure the long-term economic viability of the nukes, most likely via special-purpose legislation in NJ (as opposed to less likely options such as federal action or state FRR election, which may ultimately be too cumbersome). *On balance, the 3-year review cycle putting ZECs at risk appears ill aligned with long-lived nature of assets.*

Finally, PEG would be open to selling these assets given the perceived investor benefit of divesting of generation assets. We stress a spin or sale of these assets would truly unlock its embedded scarcity value as a pure-play listed electric & gas LDC with no generation.

LIPA: yes, scrutiny again – but what will happen?

We stress that ongoing challenges in New York cloud the fate of its service agreement to operate LIPA. While the agreement remains for a further six years, we see some potential for reducing the scope of its involvement over time should the state deem its operations as inadequate from last year.

Utility biz strength with largely unchanged rate base CAGR

As the focus increasingly turns to utilities (with ~90% of earnings to come from PSE&G post-asset sales), we highlight PEG's recently updated rate base growth of 6.5-8% off a new 2020 base of $22Mn is relatively in line the prior 7-8% on a pre-rolled forward basis. PSE&G also recently updated its 5-yr capex forecast to $14-$16Bn for '21-25, with confidence by '25 on CEF-EE and GSMP extensions at least at current levels.

With NJ BPU transmission ROE negotiations ongoing, mgmt provided minimal update on negotiations (with transmission ROE change not factored into 1Q21 guidance at a minimum, giving some expectation of timeline for resolution) but we perceive the recent JCP&L settlement at a 10.2% stated ROE (incl. adder) as a positive sign that should guide resolution with others including PSE&G. As a positive, the company plans to finance its capex plan and planned offshore wind investments without the need to issue any equity. LIPA impact in aggregate is estimated to be minimal at roughly -5c/sh.

Further offshore wind opportunities

With PEG's recently confirmed agreement with Orsted to acquire a 25% equity interest in the 1.1GW Ocean Wind project, we still highlight limited contribution on an NPV basis to our SOTP at < $1/sh (no buy-in disclosed), although EPS profile could be upfront-biased. Mgmt noted clear interest in evaluating further opportunities in NJ as well as MD. Recall that Orsted has submitted a bid through Ocean Wind 2 for NJ's second offshore wind solicitation of up to 2400 MW. While PEG has not directly entered into the bidding process with Orsted, we see it as likely that Orsted could offer to PEG at a later point a JV agreement akin to the one at present.

Spire (SR)

Spire represents the silver lining to gas LDCs relative to Texas events having invested in gas storage assets in the Southeast earlier, when they proved quite out of favor.

Gas LDC biz impact minimal; Gas marketing and off system sales big positive
Mgmt. highlighted that it would expect to use its typical Purchase Gas Account mechanism to recovery the fuel cost from the Texas winter event (with it mostly isolated to W. MO). While it did not specifically quantify the impact, we estimate this in the $200-400mn range; we view this as a clear positive given peers that experienced costs in the multi-billion dollar range and does NOT need securitization/amortization of regulatory asset with the latter that would impact customer bills more meaningfully. In terms of the impact on the gas marketing side, mgmt. is still working through the details although was clearly a beneficiary given the physical flow of gas on its storage assets in the MidCon, Texas, and Gulf. While difficult to quantify the impact, mgmt. highlighted that at a minimum it should reduce future equity needs (currently $100-150mn/yr). The company was also able to benefit on the gas utility side through off system gas sales, which should be a benefit to its gas customers. At the end of the day, we see SR as having a constructive set-up and would expect upside to both '21 guidance and the LT EPS trajectory.

Sunrun (RUN)

Strategic thoughts – but remaining focused on VSLR integration near-term
In light of continued strategic developments across resi solar sector, including peer NOVA (with SunStreet) and ENPH (software tuck-in acquisitions), RUN mgmt provided its perspective on strategic thoughts, emphasizing that it will look at companies that can add significant value to what RUN does in particular in being able to add meaningful capabilities from the acquisition of a leader in the space (as with the VSLR acquisition). Indeed RUN highlighted its past acquisitions having provided it with its Direct Biz capabilities, value for channel partners, proprietary racking technology, and digital lead generation. Specifically, mgmt expressed that RUN will evaluate any potential opportunity that provide bolt-on capabilities. While peer NOVA has expressed that it will remain tech hardware agnostic, RUN expressed that if there were a company that was also a product hardware OEM that mgmt perceived to be strategically important – it would be considered, noting that RUN has acquired a resi solar racking company in the past. Nonetheless, RUN mgmt emphasized focus on organic growth as well as continued integration of VSLR (post acquisition in FY20) – but continues to monitor M&A opportunities.

With the significant attention on cleantech from SPACs of late driving heightened public market activity of late, RUN mgmt expressed its view that sellers would perceive it as a desirable buyer in being able to further value by integrating with the leading resi solar and storage company (no SPAC 'finder's fee' either), though acquisitions are case by case in most suitable buyer (in going public via SPAC vs. strategic acquisition).

Storage inflection through '21 with >100% y/y growth guide
With its latest 4Q20 update, RUN notably guided >100% y/y increase in new storage deployments (~12-14K by our estimates) relative to its cumulative base of 16K storage systems, emphasizing that it is less impacted by higher storage cycle times (relative to solar) vs. long-tail installers given its acute focus on training installers for years within its Direct Biz. Mgmt expressed that FY21 storage guide is constrained by supply still given substantial consumer demand. That said, mgmt expressed being multi-sourced (TSLA and LG) helps with additional supply support from products from high quality

manufacturers near-term in the pipeline (for qualification to approved vendors list, expect ENPH and SEDG given existing relationship on inverters)

Mgmt highlighted significant demand from TX with latest cold snap outages, particularly as its solar+storage customers have been able to stay online with power through this period. RUN expressed it was already in the process of expanding in TX (San Antonio in particular) prior to event driven outages and expects strong traction here. In other markets, RUN expects continued geographic expansion growth organically, which includes working with channel partners/dealers.

Policy-wise, mgmt expects a stand-alone storage ITC as likely given case for meaningful value to the grid from a resiliency perspective for incremental storage assets.

Grid services – potential to expand/partner and further add to network effect
For grid services, RUN mgmt expressed that it would consider expanding beyond PPA/lease assets it owns on B/S to customers that purchase solar+storage via RUN or channel partners (where RUN still provides warranty and servicing) through cash/loan, with enrollment bringing more assets to its partnerships to deliver against its growing grid service contracts (12 awarded already currently). Additionally, mgmt acknowledged that it could potentially partner with product OEMs – here ENPH expressed it could provide customers with ENPH systems that use its app an opt-in option where it could then work with a partner to manage the grid services (such as RUN among others) This would still add $2K NPV per customer on grid service margin even if not a RUN originated or owned system.

Shift towards whole home energy – multi step approach in adding value
Beyond expansion from solar into storage, RUN mgmt expects trends to continue towards whole home energy/power – a focus are for its JV with SK. RUN mgmt expressed a multi-step approach - first electrifying more of the home, for instance electric appliances that have advanced significantly (smart water heaters, electric cooktops, etc) as well as EV additions. This creates more home electric load supporting greater sizing for home solar and storage, with saving potentially paying for much of the improvements. Smart devices such as thermostats (CFO experience as prior CFO of Nest) to support coordination of home DERs as well.

From a grid services perspective, solar+storage is the easiest to dispatch though RUN CFO emphasized experience doing this with thermostats at Nest. Key to consider here is finding the right balance between capacity for grid relative to home owner experience in properly coordinating between loads in home.

Vistra Energy (VST)

We see shares back at among their cheapest levels in the shares history – and at implied multiples that appear akin to the lows since 2008 despite the wider market backdrop. We reiterate our expectation for some degree of reform to materialize. We're surprised by continued fade in shares despite clear market focus on 'reform' and mitigating the supply impacts from recent impacts once more.

Presenting the upside case for market reform
Our discussion principally centered on market reform opportunities following the latest ERCOT severe weather event. With VST and NRG both presenting options to the TX legislature, we see VST as advocating a number of key changes. First, mgmt sees a need to address current market design, with a more defined reliability standard e.g. resource adequacy with potential for higher reserve margins, whether for dispatchable assets or all assets, or with potential changes in the ORDC curve. The question will be whether it makes sense to reduce the $9,000 price cap currently in place. While power forwards have been up of late, it is unclear how much of this can be attribute to likelihood of ERCOT market reform. Other options discussed have been improved coordination

between constituents such as natgas, power/retailers, and TDUs. A re-pricing scenario is also a point of discussion, although we see this as a lower likelihood option.

Nuances to watch in the market reform discussion: Not all reserves are created equal; look for discussion of dispatchable and un-dispatchable resreves each; also look for changes to the ORDC curve of late too. On balance, we stress how quickly ERCOT moved through its reserves was a key point of focus coming out of the events. However we do not see a capacity market as still in the cards. Rather, energy market reforms are the focus.

How much of the $900mn-$1.3bn impact can be mitigated?

With VST's plants largely winterized, mgmt emphasized their resilient business model over the long term with minimal changes necessary despite this one-time event. Notably, as VST had stated previously, the key driver of the $900mn-$1.3bn in estimated losses stemmed from gas suppliers declaring force majeure (*all of them appear to have done so)*. While VST emphasized that they feel comfortable on being able to stay within this range on ultimate expected losses, the key question will be how much upside could be achieved in reducing this figure by disputing suppliers' force majeure claims. Separately, we see exposure to ERCOT default allocations as minimal given VST's 6-7% market participant share, in addition to $2.5mn monthly maximum allocations instituted by ERCOT for payments (with an event of this magnitude not previously considered, changes may need to be made).

Still see resilient integrated biz, despite it all

We continue to see a resilient integrated business model with a solid retail book backing the existing generation assets, and reduced earnings volatility aside from the latest event. It will be critical for mgmt to prove out guidance for long-term ~2% EBITDA growth. While VST mgmt made it clear that retail customers would not bear the impact of the February event, we stress that we continue to see a long-term trajectory of improving margins for the company, driven from a variety of angles including ability to capture some benefits from hedging strategies as well as cross-selling and add-on products and services. While questions had arisen of potential retail consolidation with the exit of smaller players, it now appears that this is less likely given the load curtailments seen during the TX Feb event.

What does winterization look like? Costly

Seems principally tied to coal handling systems at coal plants – costing upwards of $50-100 Mn. The question is whether this mandate for winterization will be funded in any explicit way in coming weeks. We suspect investing this level of capital back into coal assets is likely quite challenging to justify under any range of contexts. On balance we perceive few companies as poised to act substantively on winterization of their assets.

Xcel Energy (XEL)

Our update with XEL mgmt. focused on the recent announcement of transmission expansion projects in CO, with $700m of upside to the current plan through 2025, an additional $400m through 2027, and a further $1B of potential incremental investment, among the more ambitious transmission expansions recently seen across our coverage. As expected mgmt. reported that the CO ALJ recommended against the adoption of the wildfire rider while otherwise affirming recovery of wildfire mitigation spending through a reg asset. The proposed CO clean generation plan represents upside beyond the current plan through 2025 though includes a meaningful runway of generation investment. Maintain Neutral on XEL.

$2B transmission upside in CO; resource spend in '25+

The proposed transmission expansion plan calls for $1.3B of investment in 560 miles of 345 kW lines and several new and expanded substations in XEL's CO territory, supporting the buildout of over 5 GW of mostly renewable generation capacity (~4 GW rate base wind and solar, 1.3 GW distributed) as proposed in the recently filed resource plan for the state. While the investment in new generation build is targeted for beyond

2025, the supporting infrastructure buildout represents $700m of upside in XEL's current capex plan through 2025, as well as an additional $400m in the 2026-27 timeframe. A further $0.5-1.0B of incremental opportunities including network upgrades and interconnection work has been flagged but will depend on the ultimate mix and location of resources deployed. While the topic of expanding investment in transmission is not new in our coverage (and indeed has been gaining traction given expectations for infrastructure legislation at the federal level) XEL's update represents one of the more meaningful upticks in transmission investment of late. We note that as this proposal is entirely within Colorado, filings and approvals are at the state level, further reducing the regulatory burden. *On balance look for a constructive 1Q update.*

Rate case looking more likely following wildfire rec

The CO administrative law judge (ALJ) issued an order opposing XEL's proposed wildfire recovery rider which would have allowed for concurrent recovery of wildfire mitigation investment in the state through 2025 as drafted. While rejecting the rider, the ALJ recommended adoption of the investment plan ($325m) through 2025 with a proposed deferral of prudently-incurred spend for recovery in a future rate case. While mgmt. had previously indicated that the wildfire rider outcome is not in itself a driver of whether the company will elect to file a rate case in CO, XEL now expects to make a filing around mid-year.

Fuel cost impacts subject to recovery

XEL mgmt. estimates its incremental fuel costs stemming from severe weather across the country at $1.2B driven by spiking spot gas prices over a several day period. Mgmt. expressed confidence in achieving full recovery and expects an extended recovery period in order to mitigate the impact on customer bills. Based on preliminary calculations, XEL sees a per-customer impact of $250-300 across most of its jurisdictions, suggesting a $10/month or higher individual bill impact assuming recovery is spread over 2-3 years. Mgmt. maintains that its internal hedging policies were followed across all of its jurisdictions and does not expect any incremental impact on future rate case filings given what will likely be meaningful rate pressures in the near term.

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 72.52	A-2-7
ATO	ATO US	Atmos Energy	US$ 90.87	A-1-7
BKH	BKH US	Black Hills	US$ 60.73	B-1-7
CWEN	CWEN US	Clearway Energy	US$ 27.94	B-1-7
CWENA	CWEN/A US	Clearway Energy	US$ 26.09	B-1-7
CMS	CMS US	CMS Energy	US$ 54.91	B-1-7
D	D US	Dominion Energy	US$ 69.53	A-1-8
DTE	DTE US	DTE Energy	US$ 120.65	B-1-7
DUK	DUK US	Duke Energy	US$ 88.61	B-2-7
EIX	EIX US	Edison Intl	US$ 56.27	B-1-8
ETR	ETR US	Entergy Corp.	US$ 87.95	B-1-7
WTRG	WTRG US	Essential Utilities	US$ 41.95	B-1-7
ES	ES US	Eversource Energy	US$ 79.15	B-2-7
FE	FE US	FirstEnergy	US$ 33.45	B-2-8
HASI	HASI US	HASI	US$ 53.95	B-2-7
NI	NI US	NiSource Inc	US$ 21.81	B-1-7
OGS	OGS US	ONE Gas, Inc.	US$ 70.60	A-2-7
PCG	PCG US	PG&E Corp.	US$ 10.75	C-1-9
PNW	PNW US	Pinnacle West Capit	US$ 75.02	B-3-7
PEG	PEG US	Public Service	US$ 55.10	B-1-7
SR	SR US	Spire	US$ 68.56	A-1-7
RUN	RUN US	SunRun	US$ 53.82	C-1-9
VST	VST US	Vistra Energy	US$ 17.08	B-1-7
XEL	XEL US	Xcel Energy	US$ 59.34	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameren Corporation (AEE)

Our $76 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2023E ratebase weighted peer multiple of 15.9x for electric. We apply a 1.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 1.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 1x premium to peers to reflect the FERC ROEs. At the Parent, we assume 1x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

Atmos Energy Corporation (ATO)

Our $99 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 14.1x. Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then apply a 3x premium to the base gas LDC multiple to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions. For the Pipeline & Storage segment we apply an 8x EV/EBITDA multiple as a base to our '23E EBITDA. We then apply a 2x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

Black Hills Corporation (BKH)

Our $68 PO is based on a SoTP valuation. Gas Utilities: We apply the 14.7x peer P/E multiple on 2023E EPS. Electric Utilities: We apply the 16.2x peer P/E multiple on 2023E EPS. Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23/EVEBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: operational errors, increasing interest rates, and difficult regulatory environments.
Upside risks: favorable weather, favorable regulatory outcomes, higher capex deployment

Clearway Energy (CWENA / CWEN)

Our $38/sh PO is based on 75/25 weighted Growth/DCF methodologies. Our Growth value is $42 and our DCF value is $27.

In our DCF, we discount the current portfolio's expected cash flows. Main assumptions include:
- Our cost of equity applies a 1.50% yieldco premium to the 1.87% 30-yr Treasury
- Outstanding corporate debt is refinanced at maturity with amortizing debt with an eight-year term

Main assumptions under our drop-down approach are:
- 1,200 MW of assets are dropped down
- A target payout ratio of 80%
- A 3.8% required yield based on the 2021E dividend yield for the YieldCo peer set.
- A 0.25% premium for CWEN to the yieldco peer yield in our base case as prospects strengthen around the validity of the PPAs which are tied to PG&E

Risks are 1) misalignment between the new sponsor and the company's growth strategy, 2) the inability to purchase high-quality assets at accretive multiples, 3) the failure to successfully develop projects, and 4) the inability to access capital markets at attractive terms 5) PCG related counterparty exposure is among the nearest exposures to watch.

CMS Energy (CMS)

Our PO of $65 is based on a SotP relying on 2023E forward P/E multiples for the utility and banking business and a 2023E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 4.0x prem to the avg regulated multiple P/E of 16.2x for the electric seg and of 14.6x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up to 2020 by 5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 8x EV/EBITDA multiple, in line with current market value of CMS power plants (specifically DIG), moreover DIG has relatively favorable contracts for the near future which strengthen plant earnings. Finally, we apply a 15.5x P/E multiple on CMS' consumer lending subsidiary Enerbank, in line with forward P/Es other smaller regional banks with similar growth profile.

Risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Dominion Energy (D)

We use SOTP to derive our $78/sh PO. Utilities: We value VEPCO at 4x prem multiple to elec. peers of 16.1x '23 P/E and 14.1x w/ 3x prem on our '23E P/E to D's portfolio of gas LDCs (East Ohio, Hope Gas (WVa), and Questar (UT)). Mults are grossed up to by 5% to reflect capital appreciation. We value Wexpro at 10x disc to gas utility peers for declining rate base/ROEs and reg. risks. We ascribe a 3x premium multiple for SCANA legacy utility assets, and a 2x disc. for the NND asset. We also net out NPV of ongoing bill credits. Merchant: We apply an 8x FCF multiple for Millstone and separately apply a 100% wt to our NPV est of the ZCP cash flows. We include the full EBITDA from the contracted renewables with a 11x '23 EV/EBITDA multi w/ 3x prem in line with peers. Cove Point: We apply an NPV approach with to our DCF adjusted for the 50% sell-down in the facility. For remaining debt beyond that allocated to state utilities, we incl a 50% wt towards a str netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for more highly levered diversified utilities.

Downside risks: increase in rates, capex below assumptions, unconstructive regulatory outcomes, delays and/or cancellation of key projects vs our expectation.

DTE Energy (DTE)

We value DTE Energy at $133 using an SOTP approach.
We value the utility segment on a 2023E forward P/E multiple basis and the non-utility seg. on a 2023E forward EV/EBITDA multiple basis. For the utility segment we apply a 5x premium to both our reg. electric and gas utility peer multiples (of 16.3x and 13.5x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We subtract out Corp & Other expense excl. interest rate.
For GSP we use a midstream peer group multiple of 9x. P&I, we apply an 8x EV/EBITDA multiple, despite the lower quality of these earnings and opaque disclosures, as mgmt has been able to execute on new project origination. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6% discount rate.

Upside risks to our PO are capex expansions, higher authorized ROEs, and strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on organic growth initiatives at the nonregulated business, and less favorable regulatory environment.

Duke Energy (DUK)

Our $94 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2023E P/E multiples. We apply a 3.0x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and recent sale valuation marker). We apply a 3x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2021. We value the other regulated electric utilities at 16.2x and the gas utilities at peer group multiples of 14.7x 2022E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2023E EV/EBITDA basis. We use a 9.0x multiple for midstream and transmission segment. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Edison International (EIX)

Our $68 PO is based on SOTP, applying a 4x disc to the FERC and CPUC jurisdictional subsidiaries, and the parent/other segment 16.9x on 2023E (grossed up by 5% to reflect capital appreciation across the sector). The disc reflects CA ongoing wildfire risk despite the improved construct through AB1054. We apply 10x 2023E P/E to the Edison Energy segment to reflect uncertainty in the nascent biz. We net out ongoing contribution to the fund on an NPV basis. We also assume an additional $625mn of equity that we net out of our SOTP at the current share price given uncertainty over timing.

Downside risks: 1) Regulatory outcomes less favorable than expected. 2) Natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk. 3) Interest rate risk. 4) Non-reg businesses are inherently more risky and subject to both execution risk and commodity variation. 5) CA has specific risks given the differentiated regulatory regime. 6) CA wildfires.
Upside risks: rate case outcome above what's embedded in companies' guidance and

BofA estimates, lower interest rates, more constructive regulatory / legislative outcomes to address wildfire risk

Entergy (ETR)
Our $107 PO is SOTP based. We assign P/E multiples (peer multiple of 15.9x) for 2023E on most segments, in line with peer multiples (and grossed up by 5% to reflect capital appreciation across the group) due to similar growth, and strip out 50% of the holdco senior notes. The Merchant business is also added as a DCF (10% discount rate, no terminal value). Both electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks: 1) Regulatory outcomes or earned ROE's could worsen, 2) Rate making mechanisms could change in the future, 3) Failure to get trackers or ROE adjustment mechanisms could hurt realized ROE, 4) weather can affect operations and earnings, 5) Interest rate risk affects cost of capital, 6) Consumer advocates or utility staff may focus more on issues that challenge the company ROE, 7) ETR has had safety issues in the past, which have affected regulatory relationships and company liabilities, 8) Exit from the competitive business could present unforeseen challenges.

Essential Utilities (WTRG)
Our price objective is $49 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 25.4x and 14.9x. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Eversource Energy (ES)
Our sum of the parts based price objective of $89 uses P/E multiples on 2023E earnings. For electric utilities, we attribute a 3x premium NSTAR, 3x premium to PSNH, and in line CL&P to peer 15.9x multiple, reflecting future potential positive revisions to capex and earnings. For gas, we apply a 3x premium to the peer 14.9x multiple, given capex upside particularly in MA and a 2x for Columbia Gas. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value Aquarion at a 1x premium to the 27.9x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis. We further reflect a devco value with an assumption of an additional 3GW through 2031. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage.
Upside risks to our price objective are additional capex announcements on the T&D side, as well as success in offshore wind RFPs.
Downside risks are reduction in authorized ROEs, inability to meet earned ROE expectations, as well as failure to receive permitting on incremental capex opportunities.

FirstEnergy (FE)
Our PO of $32 is based on an SOTP: Multiples are driven by relative P/E premiums/discounts to the 2023E regulated peer multiple of 16.0x. Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. As for premiums/discounts, we view NJ as at a slight discount -1x given a generally constructive commission despite overhang, PA at -2x as we view our more punitive ests already account for industrial load sensitivity incl O&G royalties, and others as in line. In OH, we apply a -2x P/E discount multiple to account for rate review risk. Finally, we apply a 0x P/E premium to peers 2023E multiple to the Transmission business given some limited ability to invest and FERC ROE difficulties. We removed impact of DMR

payments. We subtract out the holding co debt given the high parent lev. We net out potential liabilities from a potential FES bankruptcy by assuming all known 'extra' potential liabilities.

Downside risks: 1) Reg outcomes may improve/deteriorate, 2) legislative solutions may materialize for challenged parts of biz or FE could lose/fail to gain legislative support in key states, 3) int rates positively/negatively affect cost of cap, 4) reg staff or cons advocates may focus on issues beneficial/detrimental to ROEs, 5) exit from comp power biz may or may not have substantive liabilities accrued to equity holders, 6) negative outcome from any investigations and litigation including the HB6 lawsuit.

Hannon Armstrong (HASI)
Our valuation with a $63/sh price objective using a 75/25 DDM/DCF methodology, with $68 DDM valuation and $48 DCF valuation. For the DCF we apply a cost of equity of 3.0% to value the stream of cash flows from the existing portfolio as well as the growth prospects of the proprietary origination business. We assume a 11.1x P/E multiple on a peer group, with a 5x premium given strong growth prospects vs. peers, including commercial mortgage REITs and business development companies (BDCs).
Our assumptions for 7.7% yield and 3.8% cost of debt arise from analysis of historical and projected portfolio composition (and associated yields by asset class) and expectations for fixed vs. floating rate debt composition.

Upside risks: 1) Origination growth above expectations 2) Acceleration in securitization transactions 3) Dividend growth faster than expected 4) SG&A costs below expectations 5) Faster than expected yield expansion.

Downside risks: 1) Origination growth below expectations 2) Slowdown in securitization transactions 3) Shift towards greater proportion of BTM vs. GC assets may result in drag on portfolio's yield 4) Potential for rapid rise in interest rates 5) Slowing dividend growth may impact relative valuation vs. peers.

NiSource Inc (NI)
Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 15.1 for gas utilities and 15.9x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we assign a 3x M&A premium to the VA, KY and MD gas utilities to account for their M&A premium. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $75 for OGS, applying a 23E Gas LDC peer multiple of 14.3x (grossed up by 5% to reflect capital appreciation across the space) with a 1.0x premium to the company's regulated Kansas assets due to upside on earned ROE, and a 2.0x and 3.0x premium for Oklahoma and Texas businesses, respectively, given their location and de-risked nature.

Upside risks: lower interest rates, constructive regulatory outcomes, increased capital

expenditure opportunities.
Downside risks: higher interest rates, unconstructive regulatory outcomes, decreased capex spending, ban on fracking, decarbonization efforts.

PG&E Corporation (PCG)
Our PO of $14 reflects an Electric peer P/E group multiple of 15.5x and gas group P/E multiple of 14.6x (w/ both grossed up by 5% to reflect capital appreciation across the sector) based on 2023E. We reflect a discount on both Electric and Gas group P/E multiple of -5x to PCG shares to reflect a larger fire-prone service territory, lack of dividend payment for 3yr period, and operational risks. Further, we net out the NPV of the ongoing wildfire contribution from valuation. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our $14 PO.

Upside risk: Better terms on equity raise or mandatory convert, incremental capex, favorable rate case outcomes, and lower interest rates.

Downside risk: Less favorable terms on further equity raises, selling pressure from unnatural owners including victims, lower capex, triggering the max liability cap for wildfires, unfavorable rate case outcomes, and higher interest rates.

Pinnacle West (PNW)
Our price objective of $74 is based on a peer utility 2023E P/E multiple of 15.8x with a -2.5x discount to account for PNW's risk around its pending rate case as well as headline risk related to disconnect policy review. Electric and gas peer P/E mult is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We ascribe an in-line premium despite clear renewable capex backdrop given ongoing regulatory risk associated with the company's upcoming rate filing and 2020 election risk.

Upside risks: 1) Regulatory relationships/outcomes could improve, including changes at the elected commission 2) load growth in territory above expectations 3) Riders and capital trackers could help achieve ROE 4) positive weather helps earnings 5) interest rate risk changes cost of capital - lower rates could improve 6) Consumer advocates or utility staff could become focused on issues that improve ROE

Downside risks: 1) Regulatory relationships/outcomes could decline, including changes at the elected commission 2) load growth in territory below expectations 3) Riders and capital trackers could hurt ROE 4) negative weather hurts earnings 5) interest rate risk changes cost of capital - higher rates could worsen 6) Consumer advocates or utility staff could become focused on issues that hurt ROE 7) Solar advocates in the state have engaged in public confrontations with the utility, which could change public relations in the future.

Public Service Enterprise Group (PEG)
Our $63 PO is derived from our SOTP valuation. For the electric utility we use a 3x premium to the 15.4x '23E group multiple to value the regulated and parent side of the business. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector. For the gas utility we use a 3x prem to the 13.7x '23E peer group multiple. PSE&G has meaningful growth capex planned, and while pressure on earned ROEs exists, the regulatory environment is favorable.
Downside risks to PO 1) interest rate increases, 2) unfavorable regulatory outcome, and 3) weather, all of which could lower PEG's earnings ability, 4) we caution dilutive asset sales, capacity auction uncertainty, and overall power headwinds as potential overhangs on the stock 5) BPU approvals.

Spire (SR)
Our $66 PO for SR is based on a sum-of-the-parts analysis, applying a Gas LDC multiple of 14.3x on '23E with in-line multiple for Missouri, and 2x premium for the

Mississippi/Gulf and 2x for AL assets given their location and de-risked nature (although COVID concerns remain). For the midstream assets, we use a base 8x EV/EBITDA multiple with a 1x premium for the STL pipeline given it is the one of the only new greenfield pipes in-service, a 4x discount for storage given uncertainty, and a 4x discount for marketing due to volatility.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

SunRun (RUN)

We arrive at our $95/share price objective as follows. We value the PowerCo portion of the company by taking NPV equal to Net Earnings Assets, equivalent to discounting cash flows from the existing asset by an unlevered 3.5% discount rate (roughly equivalent to 5% levered discount rate). We value the installed assets through 2025 on a DCF basis with cash flows discounted by 5% with an additional 8% discount rate on the NPV given future execution risk. We further include value from solar renewable energy credits beyond the four year contracting window also on a DCF basis at a 12% discount rate. With ITC extension prospects, we value installed assets through 2026 and include a 8x terminal value multiple on 2029 NPV given scale advantages for future growth prospects as a consolidated entity, we weigh '26+ DevCo value at 60%. We lower DevCo value created by annual R&D and non-cash SBC expenses not captured within creation costs and increase value by incremental NPV from storage and grid service contracts. We add value of operational synergies, existing grid service contracts, and upsell opportunities. We attribute credit for 50% of estimated renewal value to reflect incremental customer value.

Downside risks: We see downside risks associated with the ability to meet cost reduction expectations, MW deployment guidance, Net Energy Metering (NEM), debt capital markets given the highly leveraged strategy employed, as well as if the ITC is not extended beyond the current schedule.

Vistra Energy (VST)

Our $20/sh Price Objective is based on a 2021E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x for each fuel within each geography, depending on our specific views for the asset type and market: We include the full $275mn of margin-enhancing initiatives as well as $200mn optimization benefits and the $275mn of synergies related to the DYN acquisition. We further capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a $50mn NPV of TRA payments. We reflect accretion from the Moss Landing storage project as well.

Downside risks: 1) declining wholesale power & capacity prices, 2) competitive & regulatory change to retail businesses, principally in Texas, 3) operational issues pertaining to running power assets including Nuclear asset in Texas.

Upside risks: 1) VST may improve its retail margins and retain customers, 2) VST may beat its margin enhancements initiatives, 3) VST may see a decrease in the price of key inputs such as natural gas and coal, and 4) VST may see an increase in wholesale power prices.

Xcel Energy Inc (XEL)

Our PO is $63. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2023E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 16.1x . Electric peer P/E multiple is then grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We apply a 2x premium to most subsidiaries except in MN where we apply a 3.0x due to additional stimulus upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

We, Julien Dumoulin-Smith and Richard Ciciarelli, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Richard Ciciarelli, CFA
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	AES	AES	AES US	Julien Dumoulin-Smith

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Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	5	50.00%	Buy	3	60.00%
Hold	3	30.00%	Hold	3	100.00%
Sell	2	20.00%	Sell	1	50.00%

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	57.69%	Buy	69	76.67%
Hold	37	23.72%	Hold	24	64.86%
Sell	29	18.59%	Sell	15	51.72%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	51.61%	Buy	58	72.50%
Hold	37	23.87%	Hold	28	75.68%
Sell	38	24.52%	Sell	22	57.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1863	56.90%	Buy	1185	63.61%
Hold	686	20.95%	Hold	426	62.10%
Sell	725	22.14%	Sell	358	49.38%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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